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Budget, 1956-57
Finance Minister's Speech
29th February, 1956

Sir,

I rise to present the statement of the estimated receipts and expenditure of the Government of India for the year 1956-57.

2. I have had the privilege of presenting so far five annual Budgets of the Central Government, which reflected to a very large extent the financial implementation of the First Five Year Plan. There has been considerable transfer of revenue resources from the Central Government to the States, both on the recommendation of the Finance Commission and as statutory or discretionary grants. Moreover, loan assistance given by the Central Government to the States towards their capital expenditure has been progressively increasing. The Central Government has been enabled to do this by the discriminating approval of Parliament to the Taxation measures put forward by Government from year to year, as also by the judicious augmentation of our financial resources by the creation of credit supplemented, and indeed facilitated, by the assistance so generously and understandingly extended to us by friendly foreign countries or bodies and international institutions. In the context of our Plans the Central Government's budgets have thus come to possess a significance far exceeding that suggested by the respective constitutional spheres of the Central Government and the States.

3. Thanks to the encouraging response of the people of this country themselves, in addition to external assistance, the First Five Year Plan will, by the end of the current financial year, have been fulfilled generally to a satisfactory extent. I shall not take up the time of the House to recount the main features of the results achieved, the more important of which have already been referred to in the President's address. It is enough to state broadly my view that by means of the First Five Year Plan we have laid sound foundations for a more massive superstructure in building up the country's economy.

4. The present Budget relates to the first year of the Second Five Year Plan which will during this Session be submitted to the Parliament for approval. A draft outline of it has already been published, and in due course the House will have an opportunity of discussing it fully. At this stage only a few general observations by me are called for so that the background to the Budget that I am presenting may be understood.

5. The Plan envisages a total outlay of Rs. 4,800 crores on development and investment in the Public sector. It has not been possible to satisfy all the pressing demands from the Central Ministries and from the States. I can only say that, considering all the circumstances, a Plan of Rs. 4,800 crores, with possibilities of unavoidable marginal increases, and corresponding financial resources not fully within sight, is in my opinion (which is shared by most of the leading economists of the country) about the utmost that the country can, with realism, adopt. It is indeed a bold and ambitious Plan that we shall be undertaking, requiring great and sustained efforts, and it will be, therefore, a matter of pride and gratification if we can successfully implement such a Plan within the Five Year period. If some Central Ministries and States are disappointed, I can only assure them that the Planning Commission has tried to equalise dissatisfactions at the margin.

6. A plan for a five year period has necessarily to be flexible. It has to be adapted from time to time to changing circumstances. There are uncertainties inherent in any forecast or preview of the future and it is unrealistic to claim any immutability about allocations, targets and the implicit assumptions in the Plan. The plan has to be regarded as a framework or a map which indicates in which directions development is to proceed. in what measure and through what techniques of resource mobilisation. Such a map may not be complete in all

respects. For some purposes, even a five year framework or map is not sufficient and it may be necessary to think in terms of a longer perspective of, say, 15 or 20 years. Each step forward in the development of the economy brings into view new horizons or at least throws up new problems, and we have constantly to redraw the map in the light of developments within the economy and to adjust the perspective in which we are projecting our programmes.

7. A plan is not merely a programme of expenditure to be incurred by Government. It is a co-ordinated effort by all sections of the community to attain certain results through the use of defined resources and by defined stages. At each stage in the process there must be a balance between demands and supplies not only in the aggregate but also by sectors. Real resources must move in conformity with the plan, for, as is well known, even a small bottleneck in the availability of a vital raw material, or of power, or of transport, or of foreign exchange, can have adverse repercussions upsetting the whole programme. A great deal of work of a technical character will be continuously necessary in order to ensure the co-ordinated development and use of resources as the plan proceeds. From this point of view, no less than from the point of view of the uncertainties I mentioned earlier, it is essential to view the plan as a broad framework within which more concrete and detailed plans for each year may be worked out and implemented.

8. The Second Five Year Plan is a bolder step forward in the direction of developing the economy. It involves an increase in the rate of investment from the present level of about 7 per cent. of the national income to something like 12 per cent. This order of effort is feasible only if the necessary restraint in the matter of consumption is forthcoming on the part of all sections of the community, each according to its capacity. With a rising national income keeping ahead of the growth in population there need be no question of a reduction in the existing average living standard. This has to rise. That is the very object of planning. Nevertheless, there is in the short term a choice between an increase in consumption and an increase in investment which would bring in larger returns in the future. To the extent that a plan succeeds in drawing upon unutilised resources, it makes possible a simultaneous increase in the production of investment goods as well as consumption goods. It is not necessary, therefore, in an underdeveloped economy to regard an all round reduction in consumption as a condition precedent to an increase in investment,

although it is possible that the current consumption standards of the more fortunate sections of the Community will be unfavourably affected. There is, all the same, need for relative restraint, difficult as this is in a country which starts with exceedingly low levels of consumption. And fiscal policy has to be geared to this objective. Whatever the rise in money incomes, the community's expenditure on consumption must be limited to the level which buys off currently available supplies of consumer goods at more or less constant prices.

9. I shall not at this stage review the entire financial prospect in relation to the Plan. I must, however, stress the fact that a plan of the dimensions proposed will require the utmost effort by way of mobilising the resources needed. The financial resources obtained from abroad can only help within limits and at the margins. This help is, undoubtedly, of great significance and value, and it is most welcome. However, the bulk of the effort has to come from within the country. In this context a progressive tax system, that is, a system which augments tax resources proportionately or more than proportionately to the increase in national income has an important role to play. It is important also to encourage and mobilise the savings of the community with far more intensive official and non-official efforts than have hitherto been made. As both these can only be achieved progressively, the implementation of the Plan has to be phased with care.

Review of Economic Conditions

10. A correct appraisal of current economic trends and situations is notoriously difficult, but as far as such an appraisal is feasible, we should, in my view, be justified in believing that we are embarking upon our Second Plan in a reasonably favourable economic climate. In retrospect it seems clear that economic conditions in the country changed for the better in 1953 and 1954 and the Indian economy achieved even greater strength and vigour in the course of 1955. The decline in agricultural prices which set in after August, 1953, was halted by May, 1955, and over the remaining part of the year an upward trend was registered. In most industries production reached significantly higher levels, and, aided by favourable factors, the performance in regard to agricultural production was satisfactory. The rate of planned outlay was stepped up considerably without apparently releasing inflationary pressure. Aggregate demand and supply tend to balance at a higher level. The slack in the economy which came into evidence

after the collapse of the Korean boom has virtually disappeared. The First Plan has thus strengthened the economy a great deal and the stage is now set for more rapid development.

11. In 1954-55 the overall index of agricultural production reached 113·9, almost on level with the preceding year when it had touched the record figure of 114·1. The output of foodgrains during the year amounted to 65 8 million tons, which, though a little lower than in the previous year, was yet in excess of the Plan target by just over 4 million tons. The easy supply position of foodgrains enabled the Government to remove the last remnant of controls on the 18th March, 1955, when the inter-zonal restrictions on movement of wheat were removed.

The general crop prospects for 1955-56 are considered to be satisfactory. They would have been better still but for the calamitous floods in the North and the devastating cyclones in the South that occurred during the year.

12. The production of commercial crops showed further improvement in the current year. Oilseeds output at 5·9 million tons and raw cotton at 4·3 million bales have exceeded their targets under the First Five Year Plan by 4 lakh tons and about 1 lakh bales respectively. The production of sugar touched the record level of 15·9 lakh tons as compared to 10·01 lakh tons in 1953-54, while that of jute, which remained depressed during the last two years, has shown a significant increase of about 12 lakh bales during the 1955-56 season as compared to the last.

13. The upward trend in industrial production has persisted through 1955. A revised index of industrial production is now available. The new series has a larger coverage—88 items as against 35 items in the old interim index. According to this series the index of industrial production (1951 = 100) for the first 10 months of 1955 works out at 125·7 as against 112·9 for the whole of 1954. This represents an increase of some 11 per cent. over the preceding year. This increase in production was shared by almost all the important industries. The output of finished steel at 1·26 million tons was higher than the record of 1·243 million tons achieved in 1954. The production of mill cloth which stood at 5,087 million yards in 1955 was 89 million yards higher than the production of 1954 and exceeded the target fixed under the First Five Year Plan by 387 million yards. The production of handloom cloth has also increased considerably during the year and at 1,450 million yards

was the highest since Independence. Cement production during the year reached 4·5 million tons, again the highest since 1947. In jute, chemicals and paper too, the performances were high. Considerable strides have also been made by the engineering industry.

14. Special steps are being taken to plan and execute large scale development of the chemical industry in diverse fields. Manufacture of paper and pulp from bagasse is under investigation. An expert committee has recently been appointed to go into the question of existing capacity for the manufacture of different types of machine tools and to recommend measures required for the rapid development of this basic industry. The National Industrial Development Corporation has in hand a number of projects including the establishment of heavy foundries, forges and gear-cutting and structural fabrication shops. These will lay the foundations of the heavy machine-making industries. The two major producers of steel have undertaken substantial expansion of their capacity which will relieve the shortage of steel during the Second Five Year Plan. Licences have also been given during the year to raise cement output to 11·59 million tons in the next five years.

15. Special measures were taken during the year for the promotion and development of small industries. A National Small Industries Corporation has been set up and four regional Small Industries Service Institutes opened. A number of schemes for the development of various small industries in co-operation with the State Governments have been approved. Technical assistance to help small industries in improving output has been extended and special experts are being brought in from abroad to help in this task. A scheme for setting up Industrial Estates in various important centres in the country is under implementation. Financial assistance on a greatly enhanced scale is also being given through the State Governments. The development of the Khadi and village industries and handicrafts continued to receive systematic assistance from Government through grants and loans to the respective Boards and State Governments.

16. Industrial enterprises in the public sector have also advanced to higher levels of performance. The Sindri Fertiliser Factory has exceeded the planned target by producing 3,22,000 tons of ammonium sulphate during 1955. The Hindustan Cable Factory which began production in September, 1954, has stepped up its output considerably and during the current

year is expected to exceed the target of production of 470 miles of cables per annum envisaged for this factory. The Penicillin Factory started working in 1954 and has already left far behind the planned target of manufacture of 4·8 million mega units. The Machine Tool Factory at Bangalore and the Integral Coach Factory at Perambur have commenced production.

Government have decided to increase the production capacity of the D.D.T. factory in Delhi, which commenced production only in 1955, to 1,400 tons and also to set up a second factory in Travancore-Cochin with a similar capacity. Among the more important new projects that will be taken up during the coming year is the setting up of a Heavy Electrical Equipment Factory in the public sector for the manufacture of electric generators, transformers, switch gears, turbines for river valley projects and traction equipment for railways. The House is aware of the creation during the year of the Ministry of Iron and Steel to deal exclusively with the setting up of steel plants in the public sector. The final project report for the first of the three steel plants which it has been decided to set up, *viz.*, that at Rourkela, has recently been approved and work at site is progressing satisfactorily. Decision on the project report for the second plant at Bhilai has been taken and here too, a Project Division set up at the site has been making fair progress. Arrangements in regard to the third steel plant at Durgapur are progressing satisfactorily and meanwhile, a field office, headed by an administrator, has been established.

17. It is evident that the industrial base of the economy is being broadened year after year, and to this progress the private as well as the public sector has made a significant contribution.

18. The downward trend in wholesale prices which began in 1953 and gathered momentum in 1954, was halted by May 1955 when the wholesale price index reached a low of 342. Since then the index has been rising continuously and in December 1955 it reached 368·4, more or less on par with the level in December, 1954. The prices of food articles advanced from 276·1 in May to 323·7 in December and of industrial raw materials from 396·4 to 438·3. On the other hand, prices of manufactured articles remained virtually unchanged over the year. The fact that prices in general did not record any net rise over the year as a whole is significant in the context of the considerable expansion that has occurred in money supply with the public which recorded a rise of about 200 crores or 11

per cent. during 1955 as against a rise of about 120 crores in 1954.

19. The movement of wholesale prices is reflected in the cost of living. The all-India index of cost of living moved down from 97 in December 1954 to 92 in May 1955, mainly due to a fall of about 7 per cent. in the food index. By October, 1955, the general index had again moved up to 97. Later figures indicate that cost of living indices have moved up in the last quarter of the year, in keeping with the general trend of wholesale prices. The average level for 1955 as a whole, however, is lower than that for 1954.

20. Government took several measures to arrest the downward trend of agricultural prices which caused some anxiety early last year. Purchases of wheat and coarse grains were made at selected centres and larger exports of several agricultural commodities were permitted. These measures, together with the increased tempo of development, arrested the fall in prices, and an upward trend is now in evidence. In order to prevent an undue rise in prices as a precautionary measure Government have been releasing stocks of wheat for sale at selected centres. These price movements only high-light the importance both of Government keeping a continuous watch on the price level and also holding at its disposal sizeable stocks of food grains on which it can operate. A little countervailing action in time may save more extensive and varied measures later.

21. There is another aspect of the problem which may be mentioned in this context. Experience has shown that measures for imparting relative stability to agricultural prices cannot be fully effective without properly organised and integrated facilities for credit and marketing. Accordingly, in the light of the findings of the Rural Credit Survey Committee, an integrated programme of co-operative development covering all important aspects of rural economic life, *viz.*, credit, marketing, processing, warehousing and storage has been formulated. The main features of this programme are the participation of the States in the share capital of the co-operative institutions at all levels, re-organisation of the agricultural credit structure with larger organised primary units and strong Central and Apex Banks, organisation of marketing societies closely linked with credit co-operatives, establishment of warehouses provision of better storage facilities to co-operatives and the setting up of institutes or schools for the training of co-operative

personnel. The Government and the Reserve Bank have already implemented a number of recommendations of the Rural Credit Survey Committee in this respect. Thus the Imperial Bank of India has already been converted into the State Bank of India and the Reserve Bank of India Act has been amended so as to enable them to expand and augment credit facilities in rural areas. Only with progressive implementation of the Committee's recommendations will the requisite institutional framework for an effective application of policies in relation to agriculture be established.

22. Notwithstanding the progress achieved in different sectors of the economy, the employment situation in the country remains a matter of concern. Several *ad hoc* employment surveys in different parts of the country have been carried out, but they cannot easily be used to assess the overall situation or assist in formulating policies and plans for meeting it. The measure of unemployment and under-employment in an undeveloped economy presents difficult problems of definition and procedure. The Central Statistical Organisation and the National Sample Survey have been devoting some attention to these problems, but it will be some time before comparable and comprehensive data on a continuing basis become available. Meanwhile, from the rather inadequate data furnished by the employment figures, it would appear that unemployment in the urban areas is increasing. The number of persons on the live registers at the various Employment Exchanges rose from 6·1 lakhs at the beginning of the year to 6·92 lakhs at the end, *i.e.*, by about 13 per cent. This increase in registrations may however be due in part at any rate to greater tendency or readiness to register, as in part it is also due to some movement of people from rural to urban areas. However that may be, the need for stepping up the pace of development and for diversifying the economic structure of the country is obvious.

Balance of Payments

23. Honourable Members will recall that when we started the First Five Year Plan we anticipated a large deficit in our overall balance of payments. But it has not materialised to the extent we originally feared. Due very largely to the great increase in our food production, which has resulted in a very substantial reduction in our food imports, as well as to the aid we have received from foreign countries over these years, the total reduction in our sterling balances during these five years has been about Rs. 150 crores only. Latterly, the improvement in the domestic economy has made itself felt somewhat

in our external trade. The country's balance of payments on current account for the first nine months of 1955 showed a surplus of Rs. 25 crores and the year as a whole may show a surplus of about Rs. 35 crores as compared with a deficit of Rs. 4 crores in the previous year.

24. The level of our sterling balances reflects the overall balance of payments. At the beginning of the year 1955, these stood at Rs. 731 crores and at the end at Rs. 735 crores. That they have risen only by Rs. 4 crores as against the much greater surpluses on current account, is due to a substantial deficit on capital account. The House will recall that India repurchased her obligations from the International Monetary Fund to the extent of Rs. 22·2 crores in 1954. A further sum of Rs. 19·3 crores was repurchased during 1955, reducing India's liability to the Fund to about Rs. 6 crores only.

25. Our dollar position has also improved. During the first three quarters of 1955 there was a substantial surplus on current account of Rs. 31 crores as against Rs. 3 crores in the corresponding period of 1954. As a result of the improvement in the dollar balance of payments, India made a net contribution of $53 millions to the Central Reserve in 1955 as compared with a net withdrawal of $15 millions in 1954. During the year further progress was made towards liberalisation of dollar imports. This is in line with the policies followed generally by members of the Sterling area. Further reduction of the discrimination against dollar imports or to liberalization of dollar payments will obviously depend on the overall position of the Central gold-dollar reserves.

26. The improvement in the payments position was achieved at a higher level of trade than in the preceding year. The total value of imports during 1955 was higher by Rs. 28 crores as compared with 1954. Exports recorded an even larger increase, the actual figure being Rs. 41 crores. Of the items which have contributed to the general increase in exports, special mention may be made of vegetable oils, jute manufactures, raw cotton and shellac.

27. Despite the satisfactory payments position at present, the projected increase in the pace of development in the country will necessarily put a heavy strain on our payments position in future. Government are taking active measures to promote exports. Export Promotion Councils and Commodity Boards have been set up, greater emphasis is being laid on the value of standardisation and quality control and participation in

international fairs and exhibitions is being increased. The institution of an Export Credit Guarantee Scheme is under consideration and a Committee has recently been appointed to formulate proposals in this regard. In spite of all this, there is little doubt that, if the Second Five-Year Plan proceeds according to schedule, not only shall we not be able to achieve any surplus in our external accounts but we are also likely to be faced with fairly substantial deficits. These deficits may be greater than they otherwise would have been because we have to contend with certain adverse factors. Tea prices have fallen and export trade in our other major items, jute and cotton textiles, is becoming increasingly competitive. We have therefore to take urgent and effective steps to modernise and rationalise these industries, so as to make them capable of withstanding foreign competition. Our import requirements on the other hand must necessarily continue to rise as the tempo of our development programme increases. It is in this context that the importance of making all-out efforts to encourage export industries and otherwise to save or earn foreign exchange becomes apparent.

28. During the year under review, we have not taken any loan from the International Bank for Reconstruction and Development. India's net total borrowings from the Bank during a period of six years remain at about $ 125 millions, of which $ 64 millions have actually been drawn so far. However we expect the Bank to play a still more significant part in the financing of the foreign capital requirements of the Second Five Year Plan. In order to enable it to assess our requirements and to determine what projects in the Plan it could finance, we have invited the Bank to send a Mission to visit us and we expect that it will be here shortly. Another development in the foreign financial field is the establishment of the International Finance Corporation which will start functioning during the course of the next few months and which, we as a member country hope, will add to the flow of further funds to this country.

29. India continued to receive economic assistance from friendly countries, mainly from the U.S.A., Canada, Australia and New Zealand. The total amount of foreign aid estimated to be utilised from April, 1951, to March, 1956, is of the order of Rs. 200 crores, the total authorisation of funds so far being Rs. 300 crores. For the year 1955-56, a sum of $50 millions has been authorised by the U.S. Government as development assistance to India, of which it has been agreed that

$37·5 millions or its rupee equivalent will be a loan. The Government of Canada provided during 1955-56 an amount of $13 millions, as usual, and a special allocation of $7 millions for the NRX Reactor for the Atomic Research Station at Bombay. The Government of Australia have agreed to provide an additional 1000 wagons and some equipment for the All-India Radio at a cost of approximately Australian £1·8 million. Similarly, the Government of New Zealand have intimated that an additional amount of £400,000 would be available for being utilised on dairy development schemes. Assistance from the Ford Foundation for the projects undertaken in the previous years was continued. Under the Colombo Plan, we are also providing assistance to some of our neighbour countries. In the course of 1956-57, the value of external assistance expected to be received by India under the Colombo Plan, including assistance from the U.S.A. is expected to amount to Rs. 75 crores. We shall be spending approximately Rs. 1·5 crores on aid to other countries. We shall also be receiving from the Government of the USSR a credit equivalent of about Rs. 10 crores during the year in respect of the supply of plant and equipment for the Bhilai Steel Project. Such assistance from outside, freely given and received without inhibitions, plays a valuable role in our endeavours to develop our economy, and I feel sure that it is greatly appreciated by the vast majority of the people of this country.

30. The Government of India have continued, as in the past, to maintain their close economic link with the Sterling Area. India was represented at the Commonwealth Finance Ministers' Conference in Istanbul in September last when common problems facing the Sterling Area were discussed and the need for the continuance of sound internal economic policy was recognized. The Conference also reviewed the difficulties that had been facing sterling in the recent past and determined on measures to restore its position in the markets of the world.

31. We have also continued to follow our traditional policy of close cooperation with our neighbouring countries in economic matters. We participated in the Asian-African Conference in Bandung in April, 1955, where a number of resolutions were passed dealing with economic matters designed to promote economic cooperation among the countries in Asia and Africa. In accordance with the resolutions of that Conference, we have appointed a liaison officer to examine and pursue policies conforming to these resolutions. We also agreed to grant a loan

of Rs. 20 crores to the Government of Burma to help them tide over certain temporary difficulties.

32. This review of the last year of the First Five Year Plan shows how far the country has progressed during the period covered by it. What has been achieved in the past few years gives reason for hope that given the will and determination to put up with the necessary sacrifices, the further progress of the country can be assured. The spell of stagnation has been broken. Total national income over the First Five Year Plan period will have increased by some 18% as against the 11% increase envisaged in the Plan. The productive capacity of the economy has been significantly enlarged. And these results have been achieved consistently with the maintenance of economic and financial stability. In the course of the First Plan, there have been inflationary or deflationary forces in evidence from time to time, but on the eve of the Second Plan, the situation appears to be more or less one of balance, with slight pressures which, if not kept under observation and check, might in the context of the greatly increased rates of further expenditure contemplated hereafter become inflationary.

Financial Year 1955-56

33. I shall now deal with the revised estimates for the current year and the budget estimates for the coming year

34. The House will remember that the Budget for the current year placed the revenue at Rs. 481·58 crores and expenditure at Rs. 498·93 crores, leaving a deficit on revenue account of Rs. 17·35 crores. On the basis of the latest available information, I now expect that the year will close with a surplus of Rs. 12·31 crores. This improvement is due to a rise in revenue of Rs. 20·09 crores and a shortfall in expenditure of Rs. 9·57 crores.

35. The revenue from Customs is now taken at Rs. 165 crores which is almost the same as the budget figure of Rs. 164·5 crores. During the year a number of export duties were abolished or reduced in the interest of our export trade. Thus the duties on jute manufactures, black pepper, coffee, and iron and steel manufactures were abolished while the duties on oils and oil cakes, raw cotton etc., were reduced. The average rate of the export duty on tea was also less than the rate of As. 10 per pound assumed in the budget. The net result has been a reduction of Rs. 11 crores in the revenue from export duties. This

reduction however has been offset by an equal improvement in the import duties on various items, such as motor spirit, machinery and iron and steel. Union Excise duties are now estimated to yield Rs. 140 crores against Rs. 132·27 crores taken in the budget. Of the improvement of about Rs. 8 crores, petrol and kerosene oil account for Rs. 1 crore, cloth Rs. 2 crores, sugar Rs. 1·75 crores, and the new excise duties introduced in the last budget Rs. 2 crores. For revenue from Income Tax, the budget figure of Rs. 173·7 crores has been repeated. The Estate Duty collections are now estimated at Rs. 2 crores only against the budget estimate of Rs. 3 crores, but this revenue accrues almost entirely to the States and the reduction does not affect the Central Budget. The revenue from Posts & Telegraphs is expected to increase from the budget estimate of Rs. 70 lakhs to Rs. 2·27 crores as a result of better traffic; the share of States in Income Tax is now placed at Rs. 55·16 crores against the budget figure of Rs. 56·97 crores; there is a formal increase of Rs 11·2 crores on account of sale proceeds of evacuee property which is offset by a corresponding transfer to the compensation pool on the expenditure side; and other heads show a fall of Rs. 2·64 crores representing largely a throw-forward to the next year of a part of the profits from the sale of sugar imported on Government account.

36. The expenditure this year is now estimated at Rs. 489·36 crores of which Civil expenditure will amount to Rs. 304·29 crores and expenditure on Defence Services to Rs. 185·07 crores.

37. In Civil expenditure there is a saving of Rs. 3·16 crores, excluding the self-balancing item of Rs. 11·2 crores which I have mentioned earlier. This is the net result of a number of variations, of which I need mention only the major ones. Assistance to States towards relief and repair of damage caused by natural calamities is expected to increase by Rs. 4 crores to Rs. 7 crores as a result of serious floods in certain parts of the country. The expenditure on displaced persons has increased by about Rs. 3 crores over the budget figure of Rs. 10·37 crores. On the other hand, expenditure under Education shows a shortfall of Rs. 3 crores due to slower progress of schemes, particularly the Centrally assisted State schemes, and there are similar savings of Rs. 1 crore each in grants to the Central Social Welfare Board and for village and small-scale industries. Interest charges are expected to be less by Rs. 1·4 crores and there is a similar decrease under Civil Works.

38. Under Defence Services the revised estimates show a net decrease of Rs. 17·61 crores. This is mainly because expenditure on stores was less than was anticipated owing to difficulties in procuring supplies.

Financial Year 1956-57

39. For the coming year, I estimate the revenue, on the basis of existing taxation, at Rs. 493·6 crores and the expenditure at Rs. 545·43 crores leaving a deficit of Rs. 51·83 crores on revenue account.

40. The revenue from Customs next year has been placed at Rs. 150 crores against the current year's revised estimates of Rs. 165 crores. The drop of Rs. 15 crores is due, firstly, to the full year's effect of the abolition of export duties made this year; secondly, to the cessation of imports of sugar and, thirdly, to a similar reduction in the imports of motor spirit as a result of increase in indigenous production. The yield from Union Excise duties is taken at Rs. 145·45 crores as compared with the current year's revised estimates of Rs. 140·00 crores, the increase being largely due to an improvement of Rs. 4 crores in motor spirit and of Rs. 1·2 crores in tobacco. Under Income Tax, the revenue next year is placed at Rs. 180 crores, an increase of Rs. 6·3 crores over the current year's revised estimates. The revenue from Posts & Telegraphs is estimated at Rs. 65 lakhs only against Rs. 2·27 crores this year. The dividend payable by Railways next year is estimated at Rs. 39·66 crores, an increase of Rs. 3·5 crores over the current year's revised estimate. Of this amount Rs. 33·09 crores will represent the interest element taken in reduction of the interest payments on the expenditure side and the balance as contribution to revenue. The estimate of Estate Duty collections next year is Rs. 2·5 crores, most of which will accrue to the States. Sale proceeds of evacuee property will drop by Rs. 6·2 crores, but this, as explained earlier, will have no net effect on the revenue budget. The only other item which needs mention is the share of Income Tax payable to States which will amount to Rs. 53·35 crores as compared with Rs. 55·16 crores, the reduction being due to adjustments of over-payments made in the previous year.

41. I am budgeting for a total expenditure of Rs. 545·43 crores during the next year of which Rs. 203·97 crores will be on Defence Services and Rs. 341·46 crores under Civil heads.

42. The estimates of Defence Services show an increase of Rs. 18·90 crores over the revised estimates of the current year. The increase is mainly due to the normal expansion of the Navy and Air Force. The Army budget also shows an increase, due to the carry-over to the next year of demands of stores which have not materialised during the current year. Some increase is also expected in the manufacture in India of stores required for the Services.

43. Civil expenditure next year shows an increase of Rs. 43·37 crores, exclusive of the self-balancing item in respect of evacuee property mentioned earlier. The bulk of the increase is on account of the rising tempo of development expenditure. I need not weary the House by giving a detailed account of all the individual variations. As usual, full particulars are given in the Explanatory Memorandum and I shall mention here only the more important items.

44. The total expenditure on nation-building and development services under Civil Administration, excluding Rs. 3·6 crores transferred from other heads, amounts to about Rs. 92 crores as compared with Rs. 69 crores during the current year. Provision for Education increases by Rs. 6·4 crores to Rs. 21·6 crores which includes Rs. 10·4 crores for grants to States for basic, social and secondary education, Rs. 3·5 crores for University Grants Commission, and Rs. 1·5 crores for scholarships to students of scheduled castes, scheduled tribes and other backward classes. For expenditure on Medical and Public Health an additional sum of Rs. 4 crores has been provided; Agricultural and allied services will cost Rs. 4 crores more, and, similarly, development of village and small-scale industries Rs. 1·3 crores more. Provision for scientific research has been increased by Rs. 2 crores and for coal and mineral prospecting by about Rs. 1 crore. For development of Khadi and handloom industries a total provision of Rs. 6·1 crores has been made in the revenue budget but this will be met from the fund created out of the special cess on mill-made cloth.

45. In addition to the increase of Rs. 23 crores I have just mentioned, the provision for Community Development and National Extension Service has been raised by Rs. 1·4 crores to Rs. 12·9 crores; and that for the welfare of scheduled tribes, scheduled castes and backward classes by Rs. 3·4 crores to Rs. 10·2 crores. The grant to the Central Social Welfare Board and expenditure on Social and Moral Hygiene will cost Rs. 1·6 crores more. Other increases are Rs. 50 lakhs for

grants to States for Primary Education under the Finance Commission's Award and Rs. 1·8 crores for expenditure on Forest Development.

46. Of the rest of the increase in Civil expenditure, a sum of Rs. 2·7 crores represents additional expenditure on displaced persons due largely to the continued influx from East Bengal, and Rs. 1·4 crores on Elections, the balance being the net result of variations under other items.

Capital Expenditure

47. The current year's budget provided for a capital expenditure of Rs. 223·3 crores. This was inclusive of Rs. 29 crores for State Trading schemes, mostly in regard to foodgrains. These schemes are now estimated to yield a net credit of Rs. 11 crores owing largely to reduced imports of wheat and sugar. Capital outlay in respect of Railways is now expected to be Rs. 72 crores against the budget figure of Rs. 66 crores, but this increase has been more than offset by a shortfall in expenditure under a number of other heads. Thus cash compensation to displaced persons shows a saving of Rs. 6 crores in the budget provision of Rs. 15 crores. The revised estimates of capital outlay for the current year now stand at Rs. 170 crores.

48. For the next year, capital expenditure is estimated at Rs. 316·7 crores including Rs. 9·5 crores for Government Trading schemes, mostly for our normal purchases for the Central Reserve of foodgrains.

49. Provision for the capital outlay of Railways amounts to Rs. 113 crores against Rs. 72 crores in the current year. Provision for the three steel plants at Rourkela, Bhilai and Durgapur amounts to Rs. 44 crores. A provision of Rs. 5 crores has been made for investment in the Life Insurance Corporation which is being set up following the decision to nationalise life insurance. Cash compensation to displaced persons is estimated at Rs. 20 crores. There is also an increase of Rs. 6 crores on the capital outlay on Defence next year.

50. In addition to the provision for capital outlay, the estimates include, against the original Budget provision of Rs. 355 crores for the current year, a revised figure of Rs. 327 crores this year for loans to State Governments and others, mostly for the execution of projects in the Plan. The provision made for

the next year on this account is Rs. 386 crores. Honourable members will find the broad details of these loans in the Explanatory Memorandum.

51. With the large and growing outlay in the context of the Plan, both on revenue and on capital account, the question of securing the maximum possible economy and avoiding wastage owing to delays and inefficiency assumes added importance. Honourable Members have naturally been taking keen interest on this question and the Taxation Enquiry Commission had also stressed the need for a thorough and careful enquiry, both in the Central Government and in the States, into the whole question of public expenditure. As I have explained on various occasions we are keeping a continuous watch over the growth of expenditure and securing economy, wherever possible, as part of our day to day control over expenditure. We have an Economy Unit set up under the Home and Finance Ministries continuously re-assessing the staff requirements of various Central Ministries and an Organisation and Methods Division in the Cabinet Secretariat engaged on a continuous review of organisation and methods of work in the various Central Offices, so that wastes resulting from uneconomic methods are avoided. We have also the assistance of the Estimates Committee in the pursuit of economy. Any net reduction in the administrative expenditure in the Centre or in the States can hardly be expected during the course of implementation of the Second Five Year Plan. Nevertheless, this very tempo of rising expenditure during the next five years would open up many possibilities of extravagance and waste and it is necessary to keep a still closer watch over such expenditure to ensure that the tax-payer gets the maximum benefit out of the planned outlay. We have been in consultation with the Planning Commission and have come to the conclusion that the best way of dealing with this matter would be to set up a special high-powered committee of Ministers and the Deputy Chairman of the Planning Commission at the Centre to organize a thorough investigation, including inspection in the field, of the important projects in hand both at the Centre and in the States (with the approval of the National Development Council), through specially selected teams. These teams will be composed of officials as well as non-officials specially selected for each group of related investigations and may be assisted by outside experts. As the results of each investigation are received, the High-powered Committee at the Centre will examine them with a view to formulating proposals for effecting economy to be implemented by Central Ministries or

in the States, as the case may be. The orders of the Cabinet or guidance from the National Development Council will be obtained wherever this is considered necessary. Such proposals may conceivably include the setting up of economy units for different categories of projects, preferably in the Planning Commission.

52. This brings me to the somewhat related question of the resources of the States for financing the Plan. It is of great importance that the revenue budgets of the States, as, indeed of the Centre, should be balanced. While it is reasonable to borrow for investment outlay and for a time even some measure of deficit financing may be necessary for financing such outlay, ordinary prudence demands that current expenditure should be met by taxation. Capital expenditure has also to be phased so that it corresponds to the results of special efforts to increase resources for development. The States have been advised to bear these considerations in mind in framing their budget estimates for 1956-57. Some measure of relief to the revenue budget of most of the States may result from a re-classification of expenditure between revenue and capital. This question was examined carefully by us in consultation with the Comptroller and Auditor General and, with a view both to uniformity and also because of the large and abnormal expenditure necessitated by the Plan, we have suggested to the States that certain items of expenditure might appropriately be transferred from revenue to capital, as for example, expenditure on permanent assets of a concrete nature costing Rs. 20,000 and over. The Centre has also been able to make grants to the States over and above the transfer of resources which it had to make as a result of the last Finance Commission's Award, but the Centre's ability to make such grants is conditioned by its own revenue position. In any case, the allocation of revenue resources between the Centre and the States is a matter for the Finance Commission for which the Constitution specifically provides. For the year 1956-57, Central assistance towards the schemes falling on the revenue budgets of the States is being continued on the current pattern, although part of this assistance will necessarily have to be re-allocated among the re-organised units which will come into existence later in the year as a result of the decisions on the recommendations of the States Re-organisation Commision. The year 1956-57 will be the last of the quinquennium covered by the Award of the first Finance Commission. How far the Centre can continue or increase the present scale of assistance to the States will depend on the Award of the next Finance Commission. The President has approved the appointment of

Shri K. Santhanam as the chairman of the next Finance Commission. Other members of the Commission will be appointed shortly and the Commission is expected to start its work in the near future. The Commission will have to consider the finances of the re-organised States and its recommendations would normally take effect from the year 1957-58. In addition to its normal duty to make recommendations about the distribution of Central taxes and of Central grants, it is proposed to seek its advice on a few other important subjects. The first of these, as was indicated in the last Budget Speech, is the distribution of proceeds of Estate Duty in respect of which we are, at present, tentatively following the last Finance Commission's formula about income-tax. Another subject is the terms which can appropriately be fixed for different kinds of loans to the States. A large number of loans are being and will continue to be sanctioned to the States for financing their Plan. The terms of each loan have so far been fixed *ad hoc* and it is possible that, in some cases, they have proved onerous. An independent body which will go into the question of the finances of State Governments would be able to make a proper assessment of the burden of these loans on the States and also to advise upon their appropriateness. Whatever relief these adjustments and the Finance Commission may bring to them, it is clear that the States have to raise additional revenue to cover the growing recurrent liabilities which the present and the next Plans will involve on their revenue budgets. In this they may have to go beyond the lines recommended by the Taxation Enquiry Commission which was visualising a much smaller Second Five Year Plan.

Ways and Means

53. The current year's budget provided for an overall deficit of Rs. 327 crores to be met by expansion of treasury bills. On the basis of the revised estimates, the overall deficit is now expected at Rs. 222 crores. As the opening balance of the year was about Rs. 18 crores less than the minimum of Rs. 50 crores the expansion of treasury bills will amount to about Rs. 240 crores.

54. Unlike the previous year when a combined loan was floated to cover the requirements of both the Central Government and the State Governments, this year the normal procedure of separate loans by the Centre and the States was followed. The Central Government floated a 10-year loan, the $3\frac{1}{2}\%$ National Plan Bonds—Second Series. This loan which was for Rs. 100 crores was fully subscribed, the amount accepted being Rs. 103·7

crores. Small Savings have shown substantial improvement, the collections now expected being Rs. 65 crores against Rs. 52 crores in the budget. While the response so far has been encouraging, the task set for the next Plan is much bigger. As Honourable members will have seen from the Draft Outline of the Plan, Small Savings are expected to yield Rs. 500 crores during the next Plan, which is more than double the target for the current Plan. Government have been taking various steps to intensify the Small Savings movement. In the rural areas, the agency of Panchayats, Union Board Presidents and Village Teachers is being utilised. The Women's Savings campaign under the Central Advisory Committee has been maintaining its progress and over 150 voluntary social and women's organisations have been appointed as agents for the sale of Certificates. The State Governments are co-operating in the movement and some of them have created special offices to intensify the small savings drives in co-operation and co-ordination with the National Savings Organisation. Advisory Committees are being formed, both at the State and the district level, to assist the movement and a system of Savings Groups is proposed to be introduced in all offices and organisations. The higher target for the next Plan can only be achieved, however, if there is full and whole-hearted co-operation on the part of every citizen of the country. This is a task of vital national interest about which there can be no two opinions and I hope that the fullest co-operation will be forthcoming freely from all. I, therefore, renew once again my appeal for greater effort on the part of every one to save and invest in Small Savings and thus contribute towards the successful implementation of the Plan.

55. The improvement in the Ways and Means position this year is due largely to the surplus in the revenue account and the savings in the capital expenditure and loans to State Governments and others which I have mentioned earlier. Foreign aid this year is now expected to amount to about Rs. 56 crores against Rs. 74 crores in the budget, but this has been more than offset by improvement in other heads. Two loans which fell due for repayment this year were duly repaid, the amount involved being Rs. 69 crores.

56. The overall deficit next year is estimated at about Rs. 390 crores. This follows the larger provision for development expenditure in the revenue and capital budgets. Credit has been taken for a new loan of Rs. 100 crores next year. Small Savings next year may amount to Rs. 70 crores and foreign aid Rs. 85

crores. There is no loan maturity next year. Allowing for other miscellaneous transactions under Debt and Remittance heads, it will be necessary, on these estimates, to expand treasury bills by Rs. 390 crores to cover the overall deficit.

57. I might summarise the Ways and Means position for the coming year. Government need Rs. 52 crores for meeting the revenue deficit and Rs. 703 crores for financing the capital outlay and loan requirements of State Governments and others. Against this, they hope to raise Rs. 100 crores from the market loan and Rs. 70 crores from small savings. Foreign aid expected next year amounts to Rs. 85 crores and other miscellaneous Debt and Remittance transactions may bring in Rs. 110 crores. This will leave a gap of about Rs. 390 crores in the available resources to balance the budget.

58. I now turn to the budget proposals for the coming year.

59. The position for the coming year is briefly that the deficit on revenue account is estimated at Rs. 51·83 crores and the overall deficit at Rs. 390 crores. The immediate question is how much of this deficit should be covered by additional taxation.

60. I referred earlier to the question of re-classification of expenditure between revenue and capital. At the Centre, Honourable Members will recall, we are already taking to capital temporarily a number of grants to States and there is not much scope for further transfers from revenue to capital without straining unduly the rules of classification. I believe also that, with the administrative machinery both at the Centre and in the States getting increasingly geared to the execution of the Plan, shortfalls in expenditure of the order which have occurred in recent years will tend to diminish. The estimates for the coming year have been framed with as much care as possible; in particular, substantial reductions have been made under heads which have shown persistent savings and the provision for grants to States for various development schemes has been based on a proper assessment of the ability of the States to find their share of the resources required to finance those schemes. Although, therefore, it is not possible to say categorically that the shortfalls will be entirely eliminated, or that there will be no variations in estimates of revenue, the margin of fluctuations is likely to be narrower than in the past. Indeed,

it may be said that the cuts that have been made in some of the demands for next year may prove to be too fine. I cannot but stress again the principle that current expenditure should, as far as possible, be met from current taxation. It is, therefore necessary to cover the gap on revenue account in the coming year, if not wholly, at least substantially. My proposals for additional taxation are related to this objective.

Changes in Customs Duties.

61. I shall first deal with the changes I propose to make in Customs Duties.

62. In regard to import duties, a number of minor changes are being made and I need only mention a few of them. The duty on liquid gold for glass making is being raised from its present level of 31¼ per cent. to 62½ per cent. The duty on flash-lights and flash light cases is being raised from 39⅜ per cent. to 50 per cent. These changes will help the indigenous industries in these goods. Certain changes are also being made in the items in the Import Tariff affecting mineral oils, mainly with a view to rationalising the existing headings. The existing item in the Import Tariff relating to spectacle frames and parts thereof is being amended so as to include complete spectacles within that item. The net effect of the changes proposed will be an addition to revenue of about Rs. 1 crore.

As regards export duties, the only change I propose to make is by way of affording relief to the Tea Industry. The House will recall that a slab system of export duty on tea was introduced last year. It is too early to say how that system has worked. In the meantime, however, our exports of tea have suffered a setback during 1955 as a result of a number of factors, including a comparatively high production and keen foreign competition. In order to afford some relief to the Industry and to step up our exports of medium teas, I propose that the existing duty for the slab relating to the price range of Rs. 3/4/- to Rs. 4/- per lb. be reduced by two annas per lb., that is, from eight annas per lb., which is the present rate, to six annas per lb. The effect of this will be that all teas ranging in price from Rs. 2/8/- to Rs. 4/- per lb. will bear a uniform duty of six annas per lb. The change is being given effect to by a notification, which is being issued immediately. On the basis of the present scale of exports, the loss of revenue involved is expected to be about Rs. 1 crore.

Union Excise Duties.

63. Turning to Excises, I shall first deal with changes in the existing duties. My main proposal is to raise the duties on all categories of Cotton Fabrics by 6 pies per sq. yd., except on Dhoties and Sarees of the coarse category, the duty on which would remain unchanged. The Taxation Enquiry Commission had recommended enhancement of the excise duties on all varieties of Cotton Fabrics and I had accordingly proposed in last year's Finance Bill an increase in the duties on medium and coarse Cotton Fabrics from 6 pies per sq. yd. to one anna per sq. yd. It was, however, then represented that prices of agricultural commodities had been falling for some time, and the purchasing power of the rural population was low. The offtake from the mills had also declined at the time and the mills were carrying large unsold stocks. The proposals were accordingly withdrawn. Conditions have since noticeably improved. Although mill production of Cotton Fabrics has reached a level higher than ever before, the offtake from the Mills has steadily risen. In the context of an expanding demand for cloth, this position is likely to improve still further. The prices of agricultural commodities have also risen. After the most careful weighing up of all relevant factors, I have come to the conclusion that an increase in the Excise Duty on medium and coarse cotton cloth is fully justified. The yield expected from the proposed increase is Rs. 14½ crores.

I also propose to make minor changes in the existing duties in respect of Soap, Strawboard and Art Silk Fabrics.

The duty on Soap is at present confined to soap produced with the aid of power. Since this duty was first imposed year before last, surveys conducted have shown that the non-power operated units are producing substantial quantities of soap. Some of the larger units amongst these are offering appreciable competition to the smaller power operated units. I have accordingly proposed new excise duties for non-power operated units at somewhat lower rates than the existing rates for power operated units. In the matter of exemptions to the small-scale units also, it is proposed to put the non-power operated units in a slightly better position than the power operated units.

Strawboard at present enjoys an exemption from excise duty. Enquiries have shown that this exemption is hardly justified. Strawboard and cheap Millboard compete with each other. A substantial proportion of Strawboard is actually produced by well organised units which hardly need any special protection. I accordingly propose to tax Strawboard at the same

rate as that at present applicable to millboard, namely, 6 pies per lb. As a measure of relief to the small producer, I also propose to give, by executive notification, an exemption for the first 500 tons of Strawboard and the cheaper varieties of Millboard cleared by any manufacturer during the financial year.

In regard to Art Silk Fabrics, it has been found that the exemption given to units employing not more than 24 looms has placed them in a position considerably more favourable than the small units in the sister industries producing cotton or woollen textiles. This has further enabled them to offer unfair competition to the taxed sector of the Industry. I have, therefore, proposed the abolition of this exemption in its present form. It is being replaced by an executive notification, in a modified form, exempting the production of the first 9 looms by any manufacturer.

The total revenue effect of these small changes is an increase of Rs. 50 lakhs.

64. For new excise duties, I propose only two items, namely, Vegetable Non-essential Oils, and all kinds of Diesel Oil, Vapourising Oil and Furnace Oil.

Vegetable non-essential oils figure in the list of commodities recommended by the Taxation Enquiry Commission for an excise duty, and I propose a duty of half an anna per pound on all such oils. This duty will be levied only on factories operated by power. Even among these, it is proposed to grant exemption by notification for the first 125 tons per year cleared for home consumption from any factory. This will ensure that all *ghanies* and other small units are exempted from the duty. The yield expected is Rs. 5½ crores.

Production of diesel oil and other fuel oils at the new Refineries at Bombay is soon expected to outstrip the internal requirements for such oils. The import duty on these oils should, therefore, be replaced by an excise duty. The excise duties I propose are 4 annas per gallon on High Speed Diesel Oil and Vapourising Oil used primarily in driving heavy motor vehicles, and Rs. 30 per ton and Rs. 15 per ton, respectively, on other Diesel Oils and Furnace Oils. These new duties are expected to yield Rs. 4½ crores.

Countervailing Customs Duties will be imposed wherever necessary.

The net additional revenue from the changes in Excise Duties will amount to Rs. 25 crores.

Income Tax.

65. I now come to Income Tax. The only change I propose in personal taxation is a slight adjustment upwards of the super-tax payable on incomes above Rs. 70,000. With this adjustment, the rate of tax on the highest slab of income, that is, above Rs. 1,50,000 will be 91·9 per cent. against the present figure of 88·6 per cent. The extra revenue on this account will be about Rs. 1 crore.

In this connection, I may mention that the Taxation Enquiry Commission had recommended that the tax on the highest slab of income should not be more than about 86 per cent. They had, however, recommended that, in addition to this rate of tax, there should be a surcharge *cum* compulsory deposit at a graduated rate on incomes above Rs. 25,000—the maximum being 5·6 per cent. as surcharge, and the same amount as deposit. Their scheme envisaged, however, that against the surcharge a long-term loan, say, for 45 years, might be given at a nominal rate of interest under certain conditions and that the deposit should be repayable with interest after 45 years. The net additional amount that the tax-payer would have to pay in any year is thus represented by only one of these. Considered purely as a tax burden, the effect of the Commission's recommendation, is thus a tax of 86 *plus* 5·6 per cent., that is to say, about 92 per cent. on the highest slab of income. This will also be the position under my proposals in respect of these incomes.

I propose also to introduce a tax on Registered Firms. The Income Tax Act recognises two kinds of Partnership Firms; those which are registered and those which are not registered. In the case of the former, no tax is imposed on the firm as such but its profits are taxed in the hands of the partners according to their respective shares and at rates applicable to them individually. In the case of the latter, that is, the unregistered firms, the tax is imposed on the firm as such at rates applicable to personal incomes. The registered partnerships, therefore, enjoy an advantage over the unregistered partnerships, and they do not also pay any Corporation Tax which is payable by Companies. I think there is adequate justification for imposing a small tax on the registered firms as such. I propose that the rate of such tax should be nine pies per rupee up to Rs. 75,000, one anna up to Rs. 1,50,000 and one anna six pies for incomes above this figure. The partners of the firm will get abatement on their proportionate shares of this tax for the purpose of income-tax, but not for super-tax. In order that small partnerships may not be affected by this, I propose to

exempt incomes upto Rs. 40,000. In other words, registered firms whose income is Rs. 40,000 or less will not be required to pay this new tax. The extra revenue from this tax is expected to be Rs. 1 crore.

66. The other field of direct taxation is the taxes on corporations. About half of our direct taxes comes from this source and there has been no change in Company taxation during the last five years. In view of the large development expenditure that has taken place in the First Plan Period and the even larger expenditure contemplated in the next Plan, I think there is adequate justification for putting a small extra burden on Companies. I propose, therefore, to effect three changes. *First*, the rebate of one anna of income-tax at present given to non-Section 23-A Companies in respect of undistributed profits will be withdrawn. *Second*, while the rate of super-tax payable by Indian companies will remain unchanged, there will be levied, in addition, a super-tax at a graduated rate on the dividends declared by them above a certain limit, namely, 6 per cent. This rate I propose to be 2 annas in the rupee on the amount distributed in excess of 6 per cent., but up to 10 per cent. of the paid-up capital. On distributions above 10 per cent. of such capital, the extra super-tax will be 3 annas in the rupee. *Third*, there will be a tax of two annas on bonus issues. I have taken due notice of the recommendation of the Taxation Enquiry Commission that there should not be any tax on bonus shares. I consider, however, that there is adequate justification for imposing such a tax and, in any case, such tax is an integral part of the scheme I have proposed.

Incidentally, I am also taking this opportunity of completing the process which we started in 1953 of equating the tax payable by a foreign company operating through a branch and that payable by another company operating through a subsidiary Indian company which remits the whole of its profits as dividends to the foreign parent company. The net effect is that the tax payable by a foreign company operating through a branch will go up from 53 per cent. to 62 per cent.

Another change I propose is an increase in the penal super-tax payable by a Section 23-A company which deals wholly or mainly in investments. I propose to raise it from the present figure of four annas in the rupee to eight annas in the rupee on the amount of undistributed profits. The rate applicable to other Section 23-A companies will remain unchanged.

The net effect of all these changes in corporate taxation will be an increase in revenue of about Rs. 8 crores. I also hope that the scheme proposed will have some anti-inflationary effect.

67. In addition to these, the Finance Bill contains several other proposals some of which give relief to the tax-payers and some others which are intended to plug loopholes. In general, they are in implementation of some of the recommendations of the Taxation Enquiry Commission. I do not propose to weary the House with the details of these amendments and for the convenience of the Members I have appended to the Budget papers a Memorandum explaining in detail the provisions of the Bill.

At this stage, I should like to refer to only one of these amendments. The House will remember that, shortly after Section 5 (4) of the Investigation Commission Act had been declared invalid by the Supreme Court, we issued an Ordinance on the 17th July 1954 enacting a new Section 34 (1A) in the Income Tax Act to enable us to take over the cases which had been started under the provision declared invalid. Under this Ordinance, which was subsequently ratified into law by Parliament, we took powers to reopen all cases of tax evasion during the war years of more than Rs. 1 lakh. As the law stands, this power can be exercised only up to the 31st March 1956. There have been, since then, two other judgments of the Supreme Court, one in October 1954 declaring Section 5 (1) of the Investigation Commission Act invalid from the 17th July 1954, and another in December 1955 declaring that Section invalid from the 26th January 1950. This means that the Department will now have to take over again a large number of cases previously dealt with by the Investigation Commission. We have carefully reviewed the position arising out of the judgments of the Supreme Court in consultation with our legal advisers. As a result, it is now proposed to have a re-draft of the existing provisions of the law enabling the Department to reopen old cases. Substantially, the position remains unchanged—the only difference being that, while the existing law lays down a time limit up to the 31st March 1956 for the exercise of the Department's powers to reopen cases of concealment beyond eight years, the proposed amendment fixes no time limit. This is being done for three reasons; firstly, the latest judgment of the Supreme Court having been given only in December 1955, it is not possible for the Department to issue all notices within the short period of three months left since

then; secondly, the validity of the new Section 34 (1A) is itself being challenged in several High Courts and it is not known when we shall get a final decision on this point; and finally, the Taxation Enquiry Commission have recommended that, as in other countries, there should be no time limit to the reopening of cases of fraudulent tax evasion. This is a desirable reform which has been long overdue. The power of reopening cases beyond eight years will not be exercised unless the amount of total tax evasion exceeds Rs. 1 lakh and then only with the sanction of the Central Board of Revenue. This will ensure that the powers are exercised after proper scrutiny and only in cases of substantial evasion. It is also proposed to give the Department powers of search and seizure of accounts and documents which the Investigation Commission had and which the Taxation Enquiry Commission have recommended the Department should have. The experience of the last year and a half has shown that unless the Department is armed with these powers, it is not possible effectively to investigate cases of tax evasion. I have no doubt that the House will give its wholehearted support to measures taken to prevent and detect large-scale tax evasion and it may take my assurance that the new powers taken now will not be exercised unless they are absolutely necessary.

68. The net effect of these changes in income-tax is an increase of Rs. 10 crores, of which the States' share will amount to Rs. 1·8 crores.

Changes in Postal Rates.

69. The Postal and Telegraph branches of the Posts and Telegraphs Department have been working at a loss for some years. The net loss during the three years ended the 31st March 1955, was Rs. 222 lakhs in the Postal Branch and Rs. 65 lakhs in the Telegraph, and the losses during the current year in respect of these two Branches are estimated at Rs. 49 lakhs and Rs. 82 lakhs, respectively. The main reasons for the losses are the opening of unremunerative post offices and telegraph offices as part of the Department's expansion schemes under the First Five Year Plan on the one hand, and the charging of uneconomic rates on the other. The rates charged at present are, in many cases, well below the cost of the service. A review of the existing postal and telegraph rates has, therefore, been carried out with reference to the cost of the service, and, as a result of the review, it has been decided to increase the fee for registration on postal articles and the rates for inland telegrams. The existing registration fee of As. 6 per article will be raised to As. 8 and on inland telegrams the minimum charge

will be raised from As. 12 to As. 13 for "Ordinary" and from Rs. 1/8/- to Rs. 1/10/- for "Express". These enhanced rates for telegrams are the same as those that were in force prior to the 1st April 1950. The additional revenue expected from these increases is Rs. 95 lakhs.

Net Effect of the Proposals.

70. The net effect of the proposals may now be summarised. The changes in Customs Duties will not have any net effect on revenue. The new and increased Excise Duties will yield Rs. 25 crores. Changes in Income tax will result in an additional revenue of Rs. 10 crores of which the States' share will amount to Rs. 1·8 crores, and changes in postal rates will yield Rs. 95 lakhs. In the result, Central revenues will increase by Rs. 34·15 crores.

71. My taxation proposals will still leave a deficit of Rs. 17·68 crores on revenue account. This is a large amount, but unforeseen marginal improvement in revenue and savings in expenditure may yet be possible, and I propose to leave it uncovered. I must repeat, however, that additional taxation is inseparable from a bolder plan of economic development. The Taxation Enquiry Commission had in mind an order of expenditure on the Plan amounting to Rs. 3,500 crores. The size of the Plan is now larger and a correspondingly larger tax effort is necessary. The findings of the Commission have shown that in real terms, there has been little addition to the national tax effort relatively to national income over the last two or three decades. Even to maintain the proportion of tax revenues to national income more or less constant, additional taxation of the order Rs. 350 crores over the five year period would be necessary at the Centre and in the States. This proportion has, however, to be raised, moderately. What I have proposed this year by way of tax effort is, in my judgment, the minimum that must be attempted in view of the requirements of the Plan.

72. Including the additional taxation, the overall deficit for the year will stand at Rs. 356 crores. I think it is important to bear in mind the limitation I mentioned earlier in regard to deficit financing. There is not, at the moment, any great slack left in the economy which would justify anything more than a reasonable amount of deficit financing. Up to a point deficit financing is not only permissible, but even desirable in a developing economy. Experts differ as to the permissible limit, but it would be quite unrealistic to assume that deficit financing of this order can be maintained for any length

of time without inviting inflation. The road to inflation is easy enough, but it opens flood-gates which it would later be impossible to close. We are, in fact, taking a measure of risk with the deficit financing proposed for 1956-57 and we shall have to watch its effects carefully and adjust subsequent programmes in the light of these effects.

73. The budget I place before you is, as I have said, the first step towards the implementation of the Second Five Year Plan. A big Plan requires a big effort, and to make a good beginning with it will be, to vary the old adage, almost to ensure its accomplishment. The objective we have set to ourselves is that primary and ineluctable duty of every modern Government, namely to raise the living standards of the people and to create in the process a progressive and equitable economic and social order. This objective, moreover, is to be attained by democratic means. The sanction behind the Plan is not the will of Government (शासन शक्ति) but the will of the people (जन शक्ति). Democracy is for us a means as well as an end. It defines our objective, and it indicates the approaches and techniques to be adopted for the fulfilment of the objective.

The problem is not merely one of raising the statistical average of per capita incomes which could easily be a will o' the wisp; it is one of raising the lowest incomes and of opening out to the younger generation avenues of growth and advancement that will bring out the best in them. For this, the present generation has to make sacrifices. It has to work harder and it has to abstain from asking for immediate returns. A plan, verily, is a yajna अनेन प्रसविष्यध्वमेष वोऽस्त्विष्टकामधुक्. This is the essence of the process of capital formation, of building up the infrastructure of development and of equipping the community with the tools and implements needed for increasing the national product. We shall succeed in this task to the extent that we bring to bear on it in judicious proportions all the idealism and all the practical realism that we possess.

The Second Five Year Plan will be followed by several other Plans and it is only after we have fulfilled, shall I say, the Third Five Year Plan that we shall see a marked and unmistakable improvement in living standards all round and in the capacity of the country to go ahead more rapidly on its own momentum. The burdens that the Plan imposes upon the people are by no means light nor can their weight be mitigated by any assurance that they are temporary. On the other hand, our people stand, so to say, on the threshold of a golden age; we have to build well and truly for them; and we have to raise,

ungrudgingly and unhesitatingly, all the moneys necessary therefor Money is, after all, mainly a measure of effort; and the success of our monetary calculations, whether for our taxation measures, or for our deficit financing, or for anything else for the matter of that, depends vitally upon the measure of productive effort put forth in the community. It is the responsibility, if I may with all respect say so, of every member of this honourable House and of similar chambers all the country over, to adjudge every proposal on this basis, that is, not of what Government seeks to take from this sector or from that (indeed Government cannot take anything for itself) but of what that proposal in terms of mobilising the real efforts of the country means and of whether by any alternative proposal we could call forth equal effort without greater sacrifice.

The success that has attended on the first Plan makes it clear, I believe, that the people of this country are capable of, and willing to put forth, the effort necessary to achieve bigger things and to make for themselves and for their children an India befitting of her great heritage Our destiny is now in our hands. Our people have throughout history been known for their almost infinite patience and perseverance Given the leadership, they have never failed to respond in more than adequate measure. It is these people, sir, that have now girt their loins and stand ready to launch forth on their new, and so far their greatest, endeavour. They can rightfully expect us, their chosen leaders and representatives, to give them of our best counsels, loyal guidance and informed direction.

SUMMARY OF FINAL ESTIMATES

REVENUE

(IN LAKHS OF RS.)

	Budget 1955-56	Revised 1955-56	Budget 1956-57
Customs	164,50	165,00	150,00
Union Excise Duties	132,27	140,00	145,45 +25,00*
Corporation Tax	39,77	39,84	41,84 +6,50*
Taxes on Income other than Corporation Tax	76,96	78,70	84,81 +1,70*
Estate Duty	21	13	18
Opium	2,00	2,27	2,10
Interest	2,91	4,22	5,49
Civil Administration	10,54	14,21	11,06
Currency and Mint	23,18	23,13	23,67
Civil Works	1,90	2,38	2,39
Other Sources of Revenue	20,49	23,35	19,39
Posts and Telegraphs—Net contribution to general revenues...	70	2,27	65 +95*
Railways—Net contribution to general revenues	6,15	6,17	6,57
TOTAL REVENUE	481,58	501,67	493,60 +34,15*

EXPENDITURE.

	Budget 1955-56	Revised 1955-56	Budget 1956-57
Direct Demands on Revenue	33,13	33,08	37,15
Irrigation	13	12	5
Debt Services	39,20	37,85	35,50
Civil Administration	111,76	105,41	135,91
Currency and Mint	3,36	3,51	3,76
Civil Works and Miscellaneous Public Improvements	16,33	14,95	15,90
Pensions	9,13	8,98	8,84
Miscellaneous—			
Expenditure on Displaced persons ...	10,37	24,62	21,42
Other Expenditure	23,72	26,62	30,23
Grants to States, etc.	35,93	35,79	38,00
Extraordinary Items	13,19	13,36	14,70
Defence Service (Net)	202,68	185,07	203,97
TOTAL EXPENDITURE	498,93	489,36	545,43
Surplus (+) / Deficit (−) ...	−17,35	+12,31	−17,68

*Effect of Budget Proposals.

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